

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 DRC-01 FEA-02 INT-08 OMB-01

CIAE-00 INR-10 NSAE-00 RSC-01 SPC-03 SAM-01 AID-20

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USDOC WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

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E.O. 11652: N/A

TAGS: BFOL, ENRG, ETRD, YO, HU, CZ, US

SUBJECT: FURTHER DEVELOPMENTS ON PAN-ADRIA PIPELINE

REF: ZAGREB 0060

SUMMARY: ACCORDING INA ENGINEERING PLANNER, YUGOSLAVIA PLANS COMMIT ITSELF TO COMPLETION MAIN TRUNK TO SISAK AND CONNECTION TO HUNGARIAN BORDER "WITHIN 36 MONTHS" FOLLOWING RATIFICATION BY ALL PARTIES OF FORMAL AGREEMENTS WITH HUNGARIANS AND CZECHS WHICH "MIGHT" BE SIGNED BY MID-FEBRUARY 1974. FEASIBILITY STUDY REPORTEDLY NOW BEING AWARDED AND PAID FOR BY ENERGOINVEST ALONE, OUTSIDE FRAMEWORK CONSORTIUM. INA SOURCE BELIEVES THAT BRITISH FIRM IMEG, WHICH VERY LIKELY GET AWARD THIS BASIS, WILL THEN BE EXCLUDED FROM CONSIDERATION FOR SUBSEQUENT CONSULTING AND CONSTRUCTION PHASES. CONSORTIUM MEMBERS INA AND NAFTAGAS REPORTEDLY SHARE APPRECIATION ADVANTAGES AMERICAN ENGINEERING.

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END SUMMARY

1. TIMETABLE: SENIOR INA ENGINEER IN PIPELINE PLANNING GROUP INFORMS US THAT MAIN EFFORTS IN YUGOSLAVIA CONCENTRATING ON FORMULATION TEXT FOR AGREEMENTS WITH CZECHS AND HUNGARIANS WHICH HE HOPES WILL BE SIGNED BY MID-FEBRUARY. LANGUAGE WILL REPORTEDLY CALL FOR COMPLETION LINE TO HUNGARIAN BORDER WITHIN 36 MONTHS (AGAINST PENALTIES FOR DELAY) FOLLOWING "RATIFICATION" OF AGREEMENTS BY ALL PARTIES. SOURCE BELIEVES THAT RATIFICATION PROCESS MAY FINISH IN 3-4 MONTHS, MEANING A PROBABLE COMPLETION TARGET DATE FOR PIPELINE TO SISAK AND HUNGARIAN BORDER (INCLUDING PARTIAL COMPLETION NEW OIL PORT AT OMISALJ) OF JUNE 1977. HE CONTINUED THAT COMPLETION ELEMENTS OF LINE CONNECTING OTHER YUGOSLAV REFINERIES WOULD FOLLOW BY 1980. SOURCE COMMENTED THAT COST ESTIMATES FOR PROJECT NOW UNOFFICIALLY AT \$400 MILLION VICE LAST PUBLIC FIGURE OF \$310 MILLION.

2. ENGINEERING PHASES: ACCORDING SOURCE, FEASIBILITY STUDY FOR IBRD, ORIGINALLY SCHEDULED FOR AWARD "NO LATER THAN DECEMBER 15, 1973," NOW BEING CONTRACTED BY ENERGOINVEST ALONE, OUTSIDE FRAMEWORK PIPELINE CONSORTIUM. SOURCE "PRESUMED" THAT AWARD WOULD NOW GO TO BRITISH FIRM IMEG WHOSE ENGINEERS "OUGHT TO SHOW UP HERE SOME TIME SOON." SOURCE ADDED THAT INA AND NAFTAGAS ACCEPTING THIS ARRANGEMENT ON UNDERSTANDING THAT "ENERGOINVEST'S MONEY" PAY IMEG WHICH WOULD NOW NOT BE ELIGIBLE FOR FURTHER STAGES CONTRACT. RATHER THAN OFFERING INTERNATIONAL TENDERS, SOURCE BELIEVES THAT "INA ENGINEERING" WILL BE DESIGNATED FORMALLY BY CONSORTIUM AS PRIME CONTRACTOR. INA ENGINEERING WOULD THEN ENGAGE FOREIGN CONSULTING AND ENGINEERING FIRM EITHER DIRECTLY OR VIA A YUGOSLAV INTERNATIONAL CONSTRUCTION FIRM WITH HARD CURRENCY EARNINGS ELSEWHERE IN THE WORLD WHICH COULD BE TRADED OFF TO EASE FOREIGN EXCHANGE REPAYMENT PROBLEMS.

3. SOURCE EMPHASIZED THAT BOTH NAFTAGAS AND INA VERY FAVORABLY INCLINED TOWARD BECHTEL. HE ADDED NAFTAGAS LIKELY EMPLOY BECHTEL FOR SERBIAN GAS LINE.

4. COMMENT: SHAPE-UP OF TIMETABLE AS DESCRIBED ABOVE REFLECTS INA'S BIAS TOWARD STEP-BY-STEP APPROACH TO PIPELINE. SOURCE BELIEVED THAT INTERNATIONAL AGREEMENT WOULD HAVE VIRTUE OF PLACING GOY UNDER GUN TO COMPLETE FIRST (AND FOR INA MOST LIMITED OFFICIAL USE

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INTERESTING STAGE OF PIPELINE TO INA'S REFINERY AT SISAK AND TO HUNGARIAN BORDER. ONWARD COMPLETION COULD THEN BECOME FUNCTION OF FINDING FURTHER FINANCING UNLESS TOTAL PACKAGE ALREADY COMPLETED. FOR THIS REASON, SOURCE'S ESTIMATE OF 3-4 MONTHS FOR "RATIFICATION" COULD PROVE OPTIMISTIC. "DECISION" OR ABSENCE THEREOF ON FEASIBILITY STUDY INDICATES ONCE AGAIN PROBLEMS OF COORDINATION AMONG MAJOR YUGOSLAV PARTNERS--INA, NAFTAGAS, ENERGOINVEST.

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